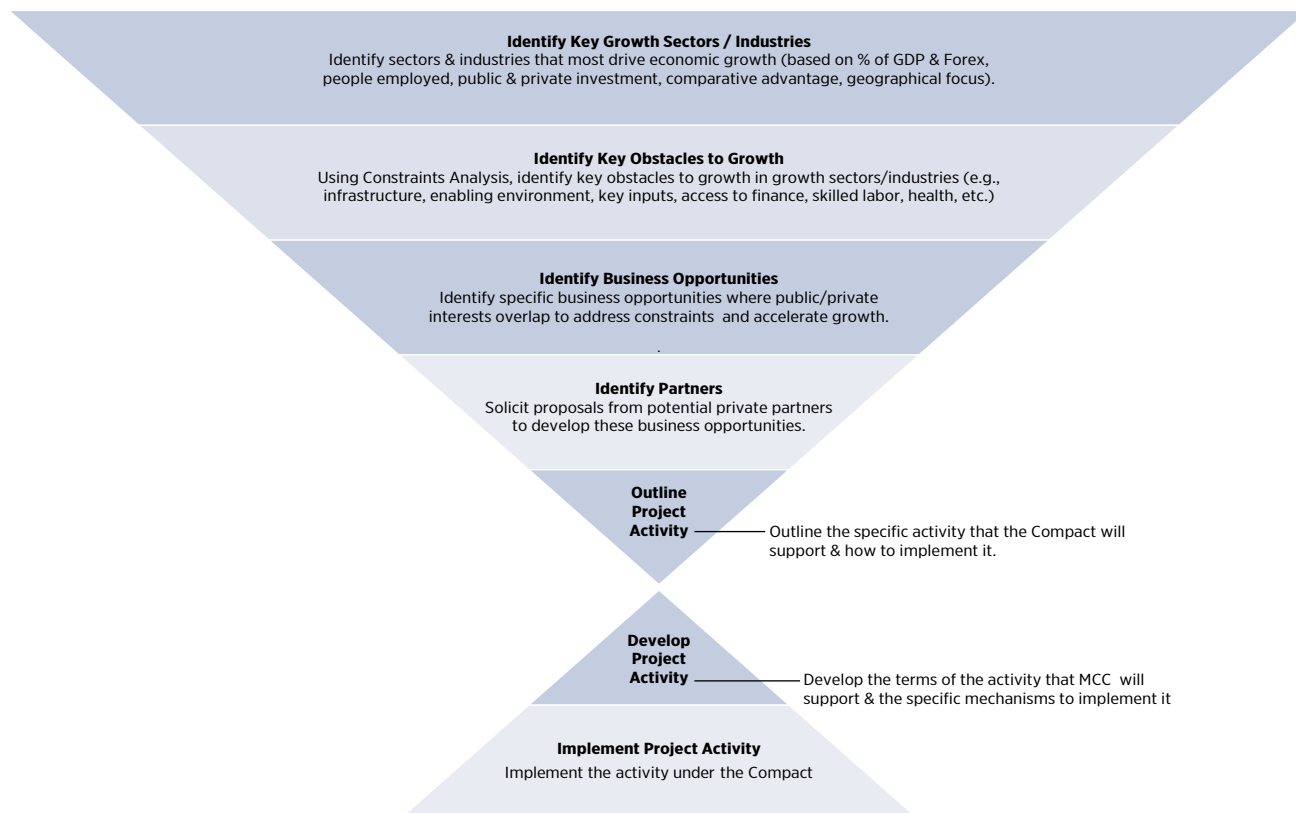


Chapter 4: Investment Opportunity Analysis

To increase the impact and sustainability of compact investments, each core team shall conduct a systematic and comprehensive analysis, called an Investment Opportunity Assessment. The objective of the Investment Opportunity Assessment is to ensure that opportunities to impact the level of private sector activity positively are explored and given appropriate consideration during the compact development process. The Investment Opportunity Assessment will follow the Constraints to Growth Analysis to explore more deeply the potential to enhance leverage private sector activities to unlock identified constraints to growth and sustain development investments. Investment Opportunity Assessments will focus on market segments that are seen to be the key drivers of growth within each country. At its core is the aspiration to leverage private sector views, expertise and, in some cases, capital to enhance compact outcomes.

Investment Opportunity Assessment Overview

The Investment Opportunity Assessment is a process that delivers upon MCC's commitment to placing a high priority on private sector engagement throughout compact development and implementation. The Investment Opportunity Assessment should be viewed as a set of principles to direct the core team and MCC rather than a set of precise instructions to be followed. While the methodology will vary based on country context as well as specific constraints and opportunities for growth, the following diagram shows a process through which the Investment Opportunity Assessment can be conducted. This template provides a guide to the core team and MCC to develop a country-specific Investment Opportunity Assessment. By following a general phased process, the Investment Opportunity Assessment identifies when, where and how the core team and MCC can engage the private sector around potential compact projects. While the analysis may or may not result in a specific private sector development project, it will ensure that the businesses views of needs and opportunities are inputs into programs and projects.



1. **Identify Key Growth Industries in the Host Country** based on factors such as an industry's growth rate, its share of GDP & exports and the amount of people it employs.

This initial high level analysis can draw from in-country and international data sources that track the performance and competitiveness of the economy by sector. The types of data that will be useful include, but are not limited to: country exports, GDP segmentation, and contribution to employment. Several years of data should be gathered to evaluate historical trends. More detailed information that provides context for sector performance should also be examined. In exports, for instance, it is important to research trade statistics by sector such as volumes and prices received by exporters in the country and those received by others in world markets.

2. **Identify Key Obstacles to Private Investment in These Growth Industries** such as poor infrastructure, a weak enabling environment, value chain inefficiencies, or lack of access to credit, skilled labor, and health, among others.

Throughout this step, the team will identify specific problems that are hindering private sector investment and activity within these key growth industries. It is expected that these will be guided by the macroeconomic issues highlighted by the constraints analysis, however there may be important additional issues that need to be addressed. The data driven overview of the economy gathered in Step 1 will be supplemented with qualitative data from private sector participants. Input from well informed sources will give the core team and MCC a context through which to make conclusions from the data. The table below indicates how some of the information could be structured.

Sector	Industry	Infrastructure			Policy / Enabling Environ.	Land Rights	Inputs / Supply Chain	Access to Finance	Labor Capacity	Worker Health	Environ/ Social Risks
		Energy	Water	Transport							

Legend	Constraint Mildly Affects Sector/Industry	Constraint Moderately Affects Sector/Industry	Constraint Strongly Affects Sector/Industry
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3. **Identify Specific Opportunities** where private and public interests in overcoming a particular obstacle to economic development overlap and offer an opportunity for collaboration.

During this step the core team and MCC can analyze the data gathered from the research, initial dialogue with the private sector and the constraints analysis to determine key issues and if there are clear areas around which partnerships with private sector actors can be built. When selecting potential collaborative projects, the core team will need to clearly identify the overlap of development and private sector interest. Even at this early stage, motivations and benefits for both sides should be explored to ensure that as ideas are developed, there will be mutually reinforcing interests. As noted earlier, two key drivers are sustainability of compact investments and increasing impact. Importantly, limitations should also be recognized in this initial period of engagement. The core team should take care to ensure that contact with private sector entities is open and transparent without giving undue preference to any business that might seek collaborative or procurement opportunities within the compact. MCC can assist the core team in navigating these issues and the processes identified in the following step are specifically designed to allow for collaboration without preference.

4. **Identify Specific Partners & Modalities for Developing These Opportunities**, such as by soliciting partnership proposals from private partners.

Having engaged potential private sector partners and developed collaborative opportunities, the core team and MCC should continue to engage these organizations around these issues. These private sector collaborations can occur in many forms. Deepening formal engagement with the private sector may develop critical long-term inputs to policy reform, increasing the likelihood that expected increased business activity does occur. Opportunities to develop new markets may also be identified for which activities that could be undertaken during compact development or supported by compact projects.

If specific partnership opportunities have been identified, the core team and MCC can solicit partnership proposals through MCC's Invitation to Innovate process. The benefit of engaging potential partners through the Invitation to Innovate process is that by using a transparent non-preferential process the team can engage directly with potential partners without waiting for a procurement process during compact implementation. Proposals can be received, reviewed and acted upon during compact development, embedding partnerships in the compact.

5. **Outline and Develop the Specific Project Activity** that MCC will support and how to implement it.

As issues have been uncovered, researched and articulated in the previous steps, this final compact development step is crafting the detailed response to solve those problems or take advantage of opportunities. As noted above the nature of the response will vary upon the issue. Institutional or regulatory reform programs may be structured to incorporate private sector views and feedback throughout implementation. Projects designed to capitalize on new market opportunities could be structured with clearly defined public and private sector roles.

Referencing the Invitation to Innovate process, as in any proposed compact activity, partnerships projects will take time and effort to construct. While engaging a partner is expected to increase impact and sustainability, an additional party beyond the public sector creates a layer of complexity not found in other compact activities. At this point it may be necessary to engage specialized resources depending on the proposed collaboration.

Communicating with the Private Sector

Engagement with the private sector and other entities is well articulated in "Guidance for Private and Non-Governmental Sector Engagement". There are some additional topics that are worth highlighting within the Investment Opportunity Assessment framework. The first is identifying companies that should be contacted. While leading companies are typically easily identifiable, smaller or ancillary firms can be found by contacting industry associations and line ministries within the country. Foreign companies can be found via chambers of commerce or embassies. If an infrastructure sector is the target of the research, then usage as reported by utility can be helpful.

After the companies have been identified, the team should clearly articulate internally the information needed and structure questions that target these needs, while leaving room for additional insights that businesses can provide.

Example questions to pose for a dialogue focused on energy:

- ★ What are the qualitative and quantitative impacts of an outage?
- ★ What is the financial impact?
- ★ What is the impact on jobs?
- ★ What types of companies are most affected?
- ★ What remedial steps are they taking to deal with the problem?
- ★ Is there a geographic concentration of impacts?
- ★ Which productivity measures are affected?
- ★ How much additional revenue potential is there with more reliable electricity?
- ★ How do you mitigate the risk of outages?
- ★ How does pricing affect your margins?

When engaging the private sector, the core team should use the appropriate forum based on the type of information sought. Conferences, roundtables, interviews and surveys have their strengths and weaknesses. This is especially the case when determining most appropriate method for gathering sensitive information regarding government policy and institutional concerns. Roundtable discussions with government representatives present may inhibit participants whereas one-on-one interviews may be a more effective option.

Linkages to the Constraints Analysis

The Investment Opportunity Assessment builds upon information and decisions made during the constraints analysis. The direction set by the constraints analysis which is used at very initial stages should be used by the core team as it conducts the Investment Opportunity Assessment throughout compact development. The constraints analysis depends upon macro-economic data and information to determine high level constraints the growth, while the Investment Opportunity Assessment engages private sector entities in key industries to gather specific supporting information as well as identify opportunities for collaboration.

Resources

Conducting the Investment Opportunity Assessment process will require a commitment of human resources from the core team similar to the commitment made for the development of constraints analysis, although it will continue throughout compact development like other cross cutting processes such as gender and environment assessments. Specialized resources may be required to articulate or develop collaborations. Engaging with the private sector will also require modest financial resources to cover items such as core team travel or hosting meetings. Within MCC the Private Sector Development group will support the core team during the process and remain a member of the MCC transaction team during compact development. Depending on the nature of the constraints being explored, inputs may be required from sector experts from the core team, MCC and specialized consultants in the areas of infrastructure, agriculture, land, education and/or health.